

## Message Text

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10

ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 SP-02 AID-05 EB-07 NSC-05

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COME-00 FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06

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FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 5745

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION OECD PARIS

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PASS TRASURY, FEDERAL RESERVE AND LABOR

E.O. 11652: N/A

TAGS: ECON, EFIN, ELAB, JA

SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - WEEK OF DEC 17-24

1. SUMMARY: THIS WEEK'S REPORT FEATURES BUSINESS PRESSURES FOR A STRONG RECOVERY STIMULUS AND HIGHLIGHTS OF THE MODERATELY EXPANSIONARY BUDGET TO BE RELEASED AT YEAR-END. END SUMMARY.

2. NEAR-TERM ECONOMIC PROSPECTS  
RECOVERY IS UNDER WAY BUT IT MAY NOT YET BE SELF-SUSTAINING. TOP GOJ POLICYMAKER ARE FINALLY SUCCUMBING TO PRSSURES FROM BUSINESS AND LDP PARTY MEMBERS FOR FURTHER REFLATIONARY FISCAL AND ONETARY MEASURES. YET IN NEXT YEAR'S BUDGET, TO BE ANOUNCED SHORTLY, GOVERNMENT SPENDING WILL INCREASE NO MORE THAN THIS YEAR AND THERE WILL BE NO INCREASE QHATESOEVER IN THE FISCAL LOAN

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AND INVESTMENT PROGRAM. AT FIRST BLUSH, THE PACE OF

ECONOMIC ADVANCE OF A 4 PERCENT ANNUAL RATE INCREASE IN REAL GNP IN THE THIRD QUARTER, FOLLOWING 4.5 PERCENT IN THE SECOND QUARTER, APPEARS QUITE SATISFACTORY. HOWEVER, FINAL SALES REMAIN UNCHANGED AND ALL OF THEIR THIRD QUARTER RISE IN PRODUCTION ENDED UP IN INVENTORIES. GROWTH IN FINAL DOMESTIC DEMAND HAS BEEN DECLINING (SEE LAST WEEK'S REPORT, TOKYO 17924). A FACT LONG STRESSED BY BUSINESS AND FINALLY DOCUMENTED BY RELEASE OF THE GNP STATISTICS. SOME ANALYSTS NOW EMPHASIZ JAPAN'S DIFFICULTY OF GENERATING A CONSUMER-AND BUSINESS-LED RECOVERY. THEY CITE RISING UNEMPLOYMENT AND UNDEREMPLOYMENT UNDERMINING CONSUMER CONFIDENCE AND INCOME. THEY VIEW EARLY REVIVAL OF INVESTMENT AS UNLIKELY SINCE BUSINESS IS CURRENTLY OPERATING WITH LARGE EXCESS CAPACITY, ITS FINANCIAL CONDITION IS SEVERELY STRAINED, AND THE GOJ 5-YEAR PLAN WILL PROJECT A FUTURE GROWTH RATE NO HIGHER THAN 6 PERCENT. IN THESE CIRCUMSTANCES, THE ANALYSTS CONSIDER RECOVERY WILL HAVE TO BE STIMULATED BY MORE PUBLIC INVESTMENT AND LARGER EXPORTS.

3. GOJ FINALLY YEILDING TO BUSINSS PRESSURE  
BUSINESS PRESSURE FOR REFLATION NOW HAVING VISIBLE IMPACT ON GOJ POLICY. ON DEC 20 LDP LEADERS MET WITH TOP GOJ OFFICIALS TO DISCUSS FUTURE GROWTH RATE AND THE BUDGET. PARTY LEDERS SECURED AGREEMENT ON A HIGHER GROWTH TARGET AND MORE STIMULATIVE BUDGET FOR JFY 1976. PARTY LEADERS HAVE ALSO PRESSED CONSTRUCTION MINISTER KARIYA TO SPEED UP PACE OF PUBLIC WORKS PROJECTS. BANK OF TOKYO PRESIDENT, YOKOYAMA, A MAJO SPROKESMAN FOR FINANCIAL COMMUNITY, ALSO URGED MORE GOVT STIMULUS, SAYING ECONOMY IS BARELY BOLSTERED BY GOVT'S CURRENT LEVEL OF EXPENDITURES, CAPITAL FORMATION, AND RIVATE HOUSING INVESTMENTS. HE CHARGED THAT MUCH TOUTED PHASE IV MEASURES WERE "NOT SUFFICIENT TO EXPAND ECONOMY." RESPONDKG TO SUCH PRESSURES, DEPUTY PM FUKUDA HAS SECURED LDP AND GOJ APPROVAL FOR LARGER GOJ BUDGET THAN RELATIVELY RESTRICTIVE  
SJBDOVOCATED BY FINMINOHIRA.  
SINCE FUKUDA HAS BEEN WELL-KNOWN AS "LOW GROWTH" ADVOCATE WHEREAS OHIRA HAS IN PAST FAVORED FASTER  
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ECONOMIC GROWTH, THIS RECENT REVERSAL OF ROLES REGARDING BUDGET POSTURES APPEARS TO REFLECT NOT ONLY DIFFERING MINISTERIAL RESPONSIBILITIES BUT GROWING INTRAPARTY PRESSURES AFFECTING THESE TOP LDP LEADERS.

#### 4. GNP FORECAST JFY 1976

GOJ PROJCTS 5.6 PERCENT INCRAASE IN REAL GNP FOR JFY 1976. THAT GROWTH FIGURE, WHICH IS NOT A FORECAST BUT

A PROJECTION AGREED TO BY PRINCIPAL ECONOMIC MINISTERIES FOR BUDGET PLANNING, INITIALLY HAD BEEN SET AT LOWER 5.4 PERCENT LEVEL. HIGHER 5.6 PERCENT PROJECTION WAS ADOPTED AFTER CONSULTATIONS BETWEEN TOP GOJ OFFICIALS AND LDP PARTY CHIEFTAINS WHO INSISTED ON FASTER RECOVERY PACE. THE GOJ FIGURE CONTRASTS WITH THE ORE PESSIMISTIC FORECAST OF 4.6 PERCENT REAL GROWTH DURING JFY 1976 RELEASED IN EARLY DEC BY HIGHLY RESPECTED JAPAN ECONOMIC RESEARCH CENTER. JERC FORECAST STRESSED THAT IN VIEW OF STAGNANT DEMAND DURING CURRENT OCT-DEC QUARTER, " SLOW PACE OF RECOVERY AT PRESENT IS NOT LIKELY TO PICK UP SPEED AND VIGOR IN THE FORESEEABLE FUTURE."

##### 5. B/P FORECAST JFY 1976

OFFICIAL B/P PROJECTION FOR NEXT FISCAL YEAR NOT YET RELEASED INDICATES FURTHER DETERIORATION. JERC IS LESS

EST JFY 1975 049' \*6 1976

(REVISED GOJ) (GOJ) (JRC)

IN BILLIONS OF DOLLARS

EXPORTS	55.5	61.7	64.2
IMPORTS	50.5	57.7	56.6
TRADE BALANCE			
	5.0	4.0	7.6
CURRENT	-1.2	-2.7	0.6
BASIC BALANCE	-3.4	-4.9	-0.4

##### 6. NEXT YEAR'S BUDGET

PRESS LEAKS ALREADY GIVE A GOOD INDICATION OF THE OVER-ALL BUDGET EVEN THOUGH IT HAS NOT YET BEEN FINALIZED FOR PRESENTATION TO THE CABINET ON DEC 31. GOJ AND LDP LEADERS AGREED ON DEC 22 TO GIVE TOP PRIORITY TO INCREASING PUBLIC WORKS PROJECTS AND EXPORTS IN COMILING THE BUDGET. EXPENDITURES IN THE GENERAL ACCOUNT (EXCLUDING UNCLASSIFIED

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TAX SHARING) WILL RISE BY ABOUT THE SAME PERCENTAGE AS THIS YEAR (16.3) BUT THE FISCAL LOAN AND INVESTMENT PROGRAM WILL BE SLIGHTLY SMALLER. GENERAL ACCOUNT EXPENDITURES IN JFY 1976 WILL AMOUNT TO ABOUT 24.3 TRIL YEN. PRESS REPORTS FROM JAPAN WILL CITE THIS AS A 14.1 PERCENT INCREASE OVER THE INITIAL JFY 1975 BUDGET. HOWEVER, FOR PURPOSE OF PROPER COMPARISON IT WILL BE 16.6 PERCENT HIGHER THAN THE REVISED JFY 1975 TOTAL EXPENDITURE REPORTED TOKYO A 544). AFTER ELIMINATING TAX SHARING WITH THE LOCAL GOVTS (WHICH IS TIED TO CERTAIN TAX RECEIPTS) ALL OTHER GENERAL ACCOUNT EXPENDITURES WILL RISE BY 16.3 PERCENT OVER JFY 1975 REVISED WHICH IS IDENTICAL TO THE INCREASE IN THE CURENT FISCAL YEAR. TOTAL REVENUES OF 17 TRIL YEN WILL BE REPORTED AS 11.9 PERCENT BELOW INITIAL JFY 1975 BUT IN FACT 10.7 PERCENT

ABOVE JFY 1975 REVISED. THE DEFICIT NEXT YEAR WILL RISE TO 7.3 TRIL YEN FROM THIS YEAR'S 5.5 TRIL YEN SINCE EXPENDITURES ARE RISING MORE SHARPLY THAN TAX RECEIPTS. THE FISCAL LOAN AND INVESTMENT PROGRAM, A CAPITAL ACCOUNT WHICH INCLUDES THE GOVT CORPORATIONS, AT 10.2 TRIL YEN WILL BE SOMEWHAT BELOW THIS YEAR'S 10.7 TRIL YEN, .3;345#3)3 , EXPENDITURES WILL BE INCREASING MORE THAN NOMINAL GNP (13 PERCENT) SO THAT NEXT YEAR'S BUDGTET WILL BE SLIGHTLY EXPANSIONARY. THE GOJ WILL HAVE SOME FLEXIBILITY OVER THE SPEED AND TIMING OF CONTRACTING FOR PUBLIC WORKS AND, IF FUNDS ARE DEPLETED, COULD SEEK A LARGE SUPPLEMENTAL BUDGET LATE NEXT YEAR.

7. NOV DEPT STORESALES (JEI 302) ROSE 2.9 PERCENT OVER PRIOR MONTH ON SEASONALLY ADJUSTED BASIS. INCREASE, WHICH CAME AFTER DECLINING OR STAGNANT SALES IN TWO PRIOR MONTHS, WAS CONSIDERED SOMEWHAT SURPRISING SINCE NATIONWIDE RAIL STRIKE HAD CUT INTO SALES SHARPLY IN FINAL FIVE DAYS OF MONTH. DESPITE NOV RISE, SALES INDEX REMAINS BELOW HIGH RECORDED IN JUNE OF 235 (1970-100).

	(INDED, S.A)	PCT CH FROM PIOR MO)
SEPT	226.9	MIN 2.4
OCT	227.9	0.4
NOV	234.4	2.9

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## Message Attributes

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